

<p align="center">STATE OF MONTANA COMPLIANCE SUPPLEMENT FOR AUDITS OF LOCAL GOVERNMENT ENTITIES</p>	REF: COM-4
	PAGE: 1 of 5
<p>PROGRAM/SUBJECT: Home Investment Partnership Program (HOME Program) (CFDA No. 14.239)</p>	

FEDERAL GRANTOR: Department of Housing and Urban Development

TYPES OF RECIPIENTS:

- Cities, towns, counties
- State-certified Community Housing Development Organizations (CHDO's) for Ownership, Sponsorship and Development Activities (Nonprofit 501(c))
- Public Housing Authorities and Non-Profit organizations sponsored by a general unit of government (city or county)

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I. PROGRAM OBJECTIVES:

- (1) To expand the supply of decent and affordable housing, particularly rental housing, for low-and very low-income Americans;
- (2) To strengthen the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing;
- (3) To provide both financial and technical assistance to participating jurisdictions, including development of model programs for developing affordable low-income housing; and
- (4) To extend and strengthen partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

II. PROGRAM PROCEDURES:

The Montana Department of Commerce (MDOC) receives funds from the U.S. Department of Housing and Urban Development through the National Affordable Housing Act, Title II, 1990. These funds are then passed to local governments and non-profit organizations based on the needs in each area.

HOME program funds are awarded for multifamily projects and single-family housing development projects on a competitive basis. Applications received from local governments and other eligible entities are evaluated and scored based on ranking criteria established by the MDOC through the public hearing process. Homebuyer assistance and homeowner rehabilitation activities are funded through a non-competitive allocation provided state-wide to qualified entities. All other HOME program policies and requirements apply.

PROGRAM/SUBJECT: Home Investment Partnership Program (HOME Program) (CFDA No. 14.239)	REF: COM-4
	PAGE: 2 of 5

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

1. Compliance Requirement:

- HOME funds may be used for the following affordable rental and homeowner housing activities:
 1. acquisition;
 2. new construction;
 3. reconstruction, or moderate or substantial rehabilitation of non-luxury housing, including real property acquisition, site improvement, conversion, and demolition;
 4. to provide tenant-based rental assistance, including security deposits;
 5. other housing-related expenses, including financing costs and relocation expenses of displaced persons, families, businesses or organizations;
 6. to provide payment for reasonable administrative and planning costs; and
 7. to provide payment of operating expenses of Community Housing Development Organizations (CHDO's).
- Specific details regarding allowable uses of funds are contained in the grant contract, which includes the approved HOME grant application. They are also included in the Home Administration Manual. (Application Guidelines - Detailed descriptions of allowable costs are available in these Guidelines, which are available from the HOME program in the MDOC Housing Division.)

Suggested Audit Procedure:

- Test expenditures to determine if they are allowable under the grant contract.

2. Compliance Requirement:

- Beneficiary Eligibility - 100% of the HOME program funds must benefit households with incomes at or below 80% of the area median. The following eligibility requirements apply: income limits, rent limits (may be adjusted for utility allowance, if utilities are not included), purchase price limits, maximum/minimum per-unit subsidy amounts on homes and multi-family dwellings, principal residence requirements, and period of affordability (resale and recapture) requirements.

(HOME Application Guidelines - These Guidelines include HUD definitions of the limits and requirements stated above.)

Suggested Audit Procedure:

- Test the recipient's files to determine if they have met the applicable eligibility requirements.

PROGRAM/SUBJECT: Home Investment Partnership Program (HOME Program) (CFDA No. 14.239)	REF: COM-4
	PAGE: 3 of 5

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

3. Compliance Requirements:

- The local government must provide a 5% match on eligible project activity costs. HOME funds received for eligible administrative expenses do not have to be matched, and they do not qualify as matching contributions.
- The following types of income can be used as match money:
 1. Cash contributions from nonfederal sources and permanently contributed to the HOME project. This contribution cannot be made by the owner/developer. Nonfederal cash match contributions to HOME-assisted or HOME-eligible projects may be expended for activities that are eligible project costs, as well as for costs that are not eligible HOME costs.
 2. Below-market interest rate loan from private lending institution.
 3. The value of state or local taxes, fees, or other charges that are normally imposed but are waived, foregone, or deferred.
 4. The value of donated land or other real property, before the HOME assistance is provided and minus any debt burden, lien, or other encumbrance.
 5. The cost of on-site and off-site infrastructure directly required for affordable housing assisted with HOME funds, not paid with federal resources. (The cost of infrastructure related to affordable housing that is NOT HOME assisted is not an eligible form of match).
 6. Proceeds from multifamily and single family affordable housing project bond financing validly issued by a State or local government, or an agency, instrumentality, or political subdivision of a State and repayable with revenues from the affordable housing project.
 7. Donated site-preparation and construction materials not acquired with federal resources and any donated or voluntary labor in connection with the site preparation.
 8. Value of donated or voluntary labor or professional services for site preparation, rehabilitation and/or construction of affordable housing. (An unskilled labor rate is \$10/hr. Skilled or professional rate is the normal market rate.)
 9. Value of sweat equity for a homeownership project.
 10. Direct cost of supportive services for families residing in HOME-assisted units during the period of affordability or receiving HOME tenant based rental assistance.
 11. Direct cost of homebuyer counseling services to families that acquire properties with HOME funds.
 12. Twenty-five percent (25%) of the face value of most Montana Board of Housing loans.

Suggested Audit Procedure:

- Ascertain the total amount of the grant received and determine if the local government has met the matching requirement with appropriate matching contributions.

PROGRAM/SUBJECT: Home Investment Partnership Program (HOME Program) (CFDA No. 14.239)	REF: COM-4
	PAGE: 4 of 5

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

4. **Compliance Requirement:**

- If authorized by the MDOC, program income may be retained at the local level. Program income (income earned from HOME activities such as repayments of principal and interest from loans for housing rehabilitation) must be used for eligible HOME activities. Communities that retain the program income must maintain the following documentation: (1) sources of program income, including interest earned; (2) dates and amounts of program income deposits and disbursements; and (3) a description of activities funded with program income. A summary of this information must be submitted with the grant application when program income has been received from a previous HOME project. The MDOC enters into program income contracts with all grantees.

Suggested Audit Procedure:

- If a summary of program income has been submitted to the MDOC with a grant application, review the required supporting information and make appropriate tests to determine that the information reported to the MDOC is accurate.

5. **Compliance Requirement:**

- Funds may be requested for project-related soft costs associated with a HOME-assisted project. For tenant-based rental assistance (TBRA) and for multifamily acquisition and/or new construction projects, soft costs shall not exceed 8% of the total grant request. For multifamily and single-family rehabilitation projects, soft costs will not exceed 12% of the total grant request. Soft costs for homebuyer assistance projects will be limited to \$1500 per unit.

Note: Administration-related costs are non-project costs (i.e., non-bricks-and-mortar costs) and include both “soft costs” and “administrative costs”.

- Soft costs are any non-project costs associated with a specific HOME-funded project (e.g., appraisals, market studies, environmental review, accounting/audit costs, supplies, staff costs), and may be reimbursed out of the grantee’s HOME award. The measure of whether a non-project cost is an eligible soft cost is whether the cost can be tied to an address in which HOME project funds have been invested.
- Administrative costs are non-project costs not associated with a specific project, such as costs incurred by the grantee to review applications, or to work with families that don’t qualify for HOME assistance. Administrative costs may only be reimbursed out of the MT HOME program’s annual administrative allocation which is provided to grantees at the program’s discretion. Administration-related costs may not be charged to a grantee’s HOME award for TBRA projects. HOME will generally allocate a portion of its administration funds to a TBRA grantee for administration-related costs, as stipulated in the contract between the grantee and MDOC.

PROGRAM/SUBJECT: Home Investment Partnership Program (HOME Program) (CFDA No. 14.239)	REF: COM-4
	PAGE: 5 of 5

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

Suggested Audit Procedure:

- If soft costs or administrative costs are awarded as part of the grant, verify that any such costs charged to the grant are eligible and do not exceed the authorized amounts noted above.

6. Compliance Requirement:

- Budget amendments and other grant amendments must be approved by the MDOC.

Suggested Audit Procedure:

- Determine if the budget for the program per the entity records is in agreement with the budget as originally approved in the grant contract or as adjusted by separate budget amendments approved by the MDOC.